



THE ISLAND TELEPHONE COMPANY LIMITED



Annual
Report 1974

1974 Annual Report to the shareholders



THE ISLAND TELEPHONE COMPANY LIMITED

Incorporated under the laws of the Province of Prince Edward Island

Head Office: 71 Belvedere Avenue, Charlottetown, Prince Edward Island, Canada C1A 1R5

Telephone (Area Code 902) 894-5501

REGISTRAR AND STOCK TRANSFER OFFICES

Canada Permanent Trust Company

129 Kent Street, Charlottetown, P.E.I.

(Common shares, $4\frac{1}{2}\%$ Preference Shares, $4\frac{3}{4}\%$ Preference Shares, $5\frac{1}{2}\%$ Preference shares, $7\frac{1}{4}\%$ Preference shares, and $9\frac{1}{4}\%$ Preference shares)

600 Dorchester Boulevard, West, Montreal 101, Quebec

(Common shares, $5\frac{1}{2}\%$ Preference shares, $7\frac{1}{4}\%$ Preference and $9\frac{1}{4}\%$ Preference shares)

20 Eglinton Avenue, West, Toronto 1, Ontario

(Common shares, $7\frac{1}{4}\%$ Preference shares and $9\frac{1}{4}\%$ Preference shares)

315 Eighth Avenue, S.W., Calgary, Alberta

($9\frac{1}{4}\%$ Preference shares)

455 Granville Street, Vancouver, B.C.

($5\frac{1}{2}\%$ Preference shares)

1646 Barrington Street, Halifax, N.S.

($5\frac{1}{2}\%$ Preference shares, $7\frac{1}{4}\%$ Preference shares, and $9\frac{1}{4}\%$ Preference shares)

COMMON SHARES LISTED

Montreal Stock Exchange

Toronto Stock Exchange

VALUATION DAY PRICES

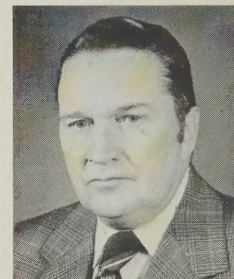
(December 22, 1971)

Common Shares	— \$10.25
$4\frac{1}{2}\%$ Preference shares	— \$ 6.25
$4\frac{3}{4}\%$ Preference shares	— \$ 6.60
$5\frac{1}{2}\%$ Preference shares	— \$15.25

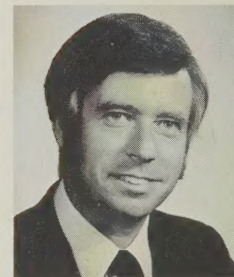
This 1974 Annual Report is a summary of the operations of the Company in its 89th year of serving Prince Edward Island. It is prepared for those who have invested in our Company, for those who are interested in the Company's performance and for our employees.



I. E. H. Duvar,
Assistant to the President



W. C. Auld,
Vice President



D. R. Livingstone,
General Manager

ANNUAL MEETING

The annual general meeting of the shareholders of The Island Telephone Company Limited, will be held at the Head Office of the Company 71 Belvedere Avenue, Charlottetown, P.E.I., Wednesday, May 28, 1975 at 12:00 o'clock noon.

Highest growth in history, progress in modernization, feature 1974

The modernization program is progressing well. Almost 90% of the telephones in Prince Edward Island are dial and it is planned that the remaining manual exchanges will be converted to dial by the end of 1977.

Direct Distance Dialing, an important part of the modernization program, is now available to approximately 75% of all telephones in P.E.I. and by the end of 1975 approximately 90% of all telephones will have D.D.D. capability. In other words, 90% of the customers in P.E.I. will be able to dial any other dial number on the North American continent directly.

During 1974, the Charlottetown Central Office was enlarged to accommodate what is the most significant and important installation ever undertaken by your Company. This is the installation of the new "Stored Program" long distance switching centre in P.E.I. at a cost of \$4.5 million. This switching centre, when placed in operation in 1975, will centralize all long distance calling for the entire province in Charlottetown and utilize the most modern central office equipment available. This is a very exciting project and when completed, together with the other projects in the modernization program, The Island Telephone Company will be as modern if not the most modern of any telecommunications company on the North American continent.

In 1974, we were dealing with a period of fast rising costs of labour, material and capital, at a time when the Company continued its very positive program of providing improved levels of service, and when telephone installation and volumes of calling were the highest in its history. Results for 1974 are summarized in the pages that follow.

Due to these increased costs, the financial results for the year were disappointing. Net income dropped to \$738,595, compared to \$921,061 for the year before. After deducting common and preference dividends, the earnings retained and invested back into the Company to buy additional telephone equipment amounted to \$92,324 compared to \$395,293 for the year 1973. However, new telephone rates were approved for introduction on January 1, 1975, and it is expected that Company revenue will improve, resulting in improved earnings for the coming year.

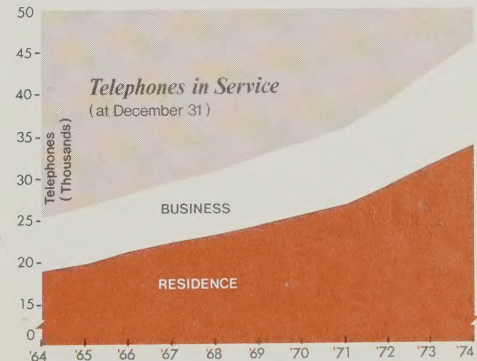
In the face of inflated costs, meeting the rapidly increasing demand for telephone service and at the same time continuing the accelerated modernization program pushed your Company's financial resources to the limit to support an unprecedented \$8.4 million capital construction program in 1974. A year ago, the capital construction program required an investment of \$5.6 million, and the year before that \$3.7 million. However, the demand for an ever improving service in Prince Edward Island can only mean very large capital expenditures similar to the \$8.4 million spent in 1974.

Thus, the year 1974, with its double digit inflation, dramatically underscored both the challenges and the problems facing your Company. The Island Telephone Company Limited, in common with other telephone utilities across the country, had to invest too much to earn too little.

However, based on some easing in the rate of inflation and with required levels of income to meet increased costs, the outlook for your Company can be viewed for 1975 with some optimism.

Growth in Service

- the 1974 net gain of 3,552 telephones was the highest in history, and by year end there were 45,866 telephones in service, compared to 25,202 ten years ago.
- by year end, telephones per 100 persons in the Province stood at 40 compared to 23 in 1964. The national average is 53.



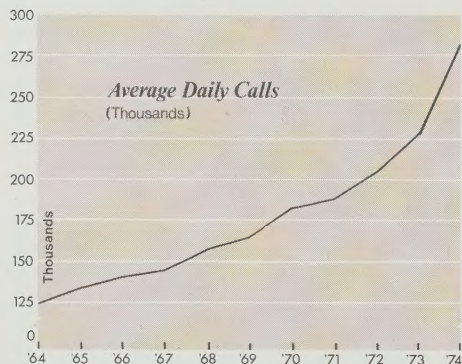
- there were 94 residence services for

each 100 homes in PEI, up from 70 in 1964.

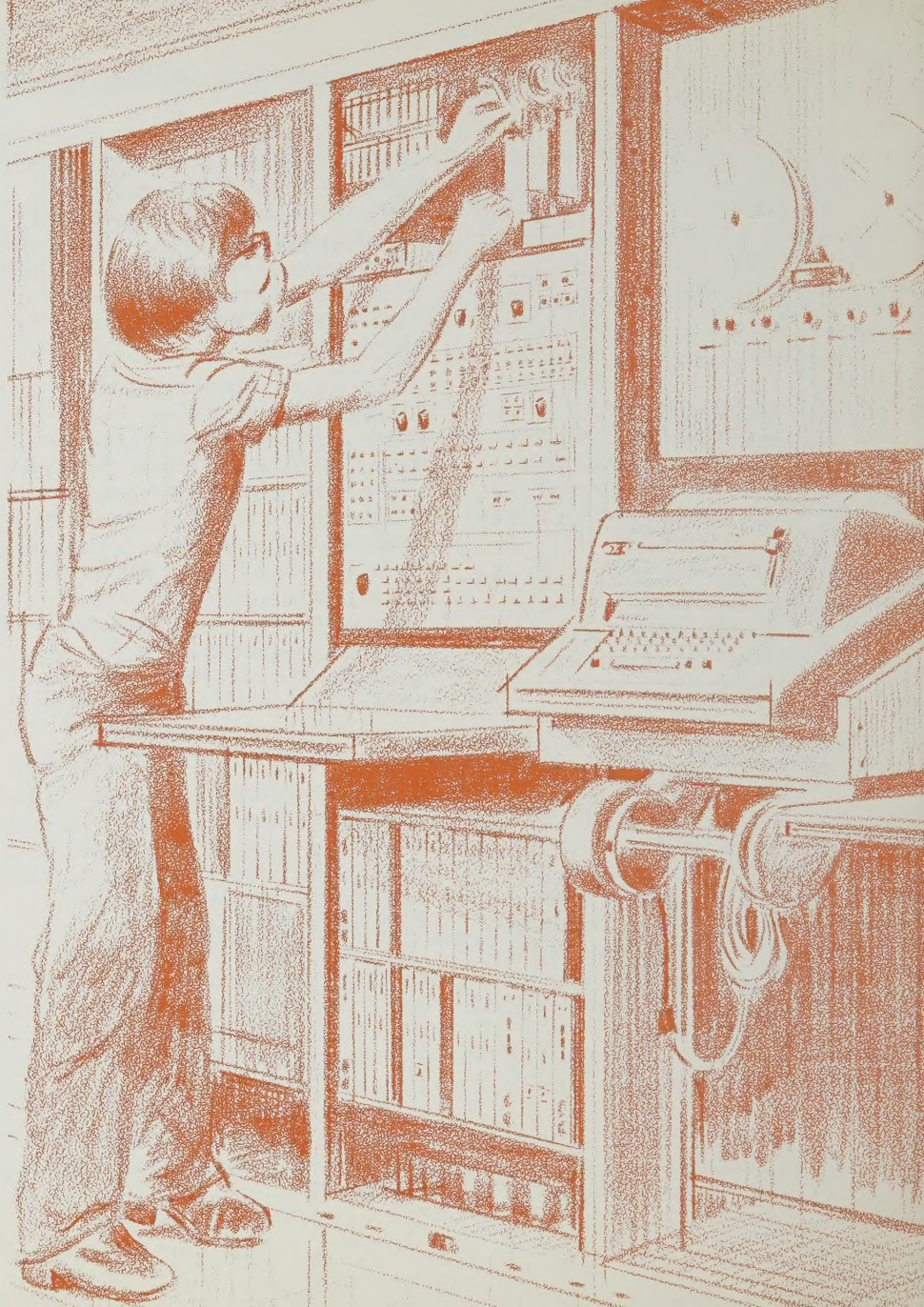
- nearly 60% of residence customers now have single line service throughout the Province, compared to 41% ten years ago.
- the number of dial telephones rose to 40,083 or 87% of the total, compared to 68% ten years ago. The cost of this phase of the modernization program alone was \$3.7 million.

Growth In Calling

- in 1974, the Company handled a total of 107.2 million calls, a daily average of 293,600, double that handled ten years ago.
- long distance calling rose by 8.7% to a total of 3,457,000, more than double the volume ten years ago.



- with the provision of Direct Distance Dialing to the Hunter River, Vernon River and Rusticoville exchanges, DDD capability rose from 70% to 74% of all Island telephones.





More dial, DDD and related improvements slated for 1975

Overall, the \$8.4 million construction expenditure program for 1974 included \$4.2 million to expand facilities for a net growth of 3,552 telephones. This required the connection and disconnection of 21,039 telephones or nearly six orders worked for each new telephone added to the network.

The remaining \$4.2 million of the program provided for both new equipment and facilities as part of the Company's ongoing modernization program, and the replacement of worn out and obsolete equipment.

Expansion

Expansion of existing facilities and construction of new facilities to meet growing volumes of telecommunications usage continued on several fronts:

- work was commenced on a new "electronic" long distance switching office in Charlottetown, known as the SP-1, designed to go into service in late 1975. This switching centre will cost \$4.5 million and is designed to provide all customers with the very latest long distance equipment for both DDD and operator-handled calls, as the volume of long distance calling has outpaced earlier forecasts.
- nearly half a million dollars was expended to provide additional dialing facilities to the Charlottetown exchange.

- \$350,000 was expended to provide for cable extensions in the Charlottetown and Summerside exchange areas. Also, in the rapidly growing New Haven exchange, similar cable extensions, costing \$150,000, were completed to meet growth requirements.

Modernization

These major goals of the modernization program were achieved during the year:

- in the period from January to late May 1974, the exchanges of Hunter River, Vernon River and Rusticoville with 1,612 telephones were converted to dial operation.
- in the same period, all telephones in the exchanges of Hunter River, Vernon River and Rusticoville were linked to the North American Direct Distance Dial network.
- also in the same period, long distance charges were eliminated for calls between the following exchanges under the Company's Extended Area Service Program; these were Hunter River — Charlottetown, Rusticoville — Charlottetown, Rusticoville — Hunter River and Vernon River — Charlottetown.
- fewer than a third of the multi-party lines serving the rural areas of the Province had more than six phones per line and the average number of party-line customers per line was

Final stages of \$4.5 million Stored Program long-distance switching machine include this computerized control panel. SP-1 installation will serve entire province in a single, high capacity centre, slated for service in late 1975

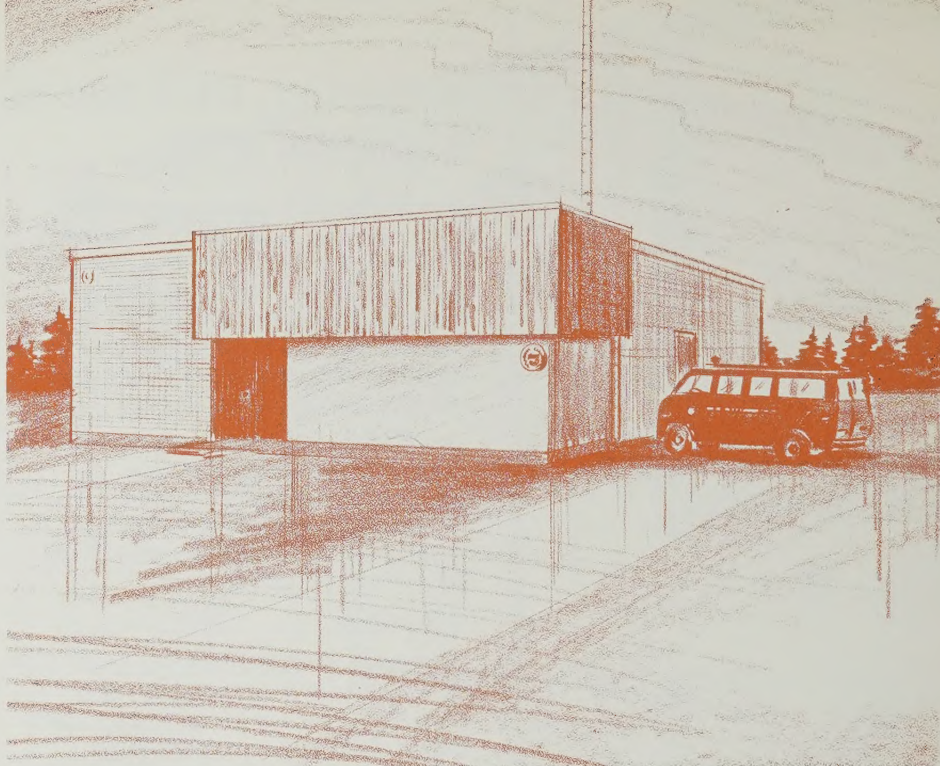
reduced from 5.7 in 1973 to 5.5, one of the best in Canada.

- the Company assumed the service of the last remaining independent telephone firm, the South New Glasgow Rural Company, on May 29.
- the program to bury, wherever feasible, telephone cable and wire continued, with 224 miles of additional buried plant in 1974 at a cost of \$894,000.

Future Projects

For 1975, the Company's overall construction program expenditure of \$6.3 million will provide for the addition of an estimated 2,900 telephones to the network, as well as continued modernization of a wide range of telecommunications services. These include the conversion to dial of telephones in the Murray River and Wellington exchanges, with Extended Area Service between Murray River and Montague, and between Wellington and Summerside. At the same time, the Murray River "base rate" area — in which monthly mileage charges do not apply — will be extended to include nearby Murray Harbour and Beach Point. Similarly, the Charlottetown base rate area will be enlarged to include East Royalty, Kinlock and Crossroads.

Finally, 1975 will see provision of Direct Distance Dialing to telephones in eight exchanges — Murray River, Alberton, Bedeque, Borden, Kensington, O'Leary, Tignish and Wellington — adding 6,614 phones to the DDD network and bringing the percentage of availability of Direct Distance Dialing to 90%.



Typical of many new automatic dial centres throughout the province, this Murray River building was completed in 1974, ready for early 1975 dial service for hundreds of additional telephones in the Company's on-going modernization program.

Employees' "Spirit of Service" exemplifies year of growth

The number of company employees rose during the year from 258 to 297, as requirements rose for higher levels of telephone installations and local and long distance calling volumes. Salaries and wages were \$2,382,076, an increase of 24% over the year before. As well, 12.6% of the total payroll or, \$299,541, included:

- \$182,814 added by the Company to the non-contributory pension plan.
- \$58,905 in payments for sickness, accident and group insurance and supplementary hospital insurance.
- \$27,590 in payments to the Canada Pension Plan.
- \$30,232 in payments to Unemployment Insurance.

Besides these benefits, more than a third of the Company's employees participated in the savings program provided through the Employees' Stock Savings Plan.

Throughout the year, 27 craft employees, 72 operators and 10 supervisors attended Company training courses. Two employees continued university-level courses on their own time, a part of the costs being supported under the Company's tuition plan.

The skills and dedication of all employees, and their devotion to the century-old "Spirit of Service" which is part and parcel of the telephone industry, were exemplified in the 11-day period

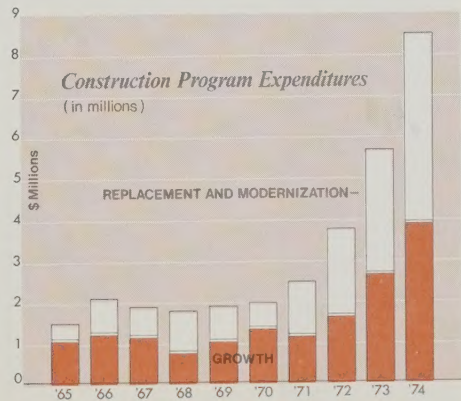
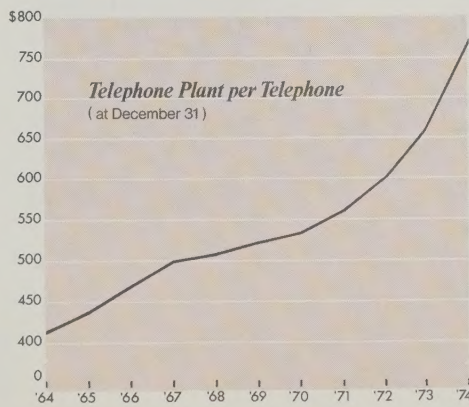
following the severe wind and snow storm which struck the Province October 20.

During that storm, which lasted but a few hours, more than 500 poles in the Charlottetown, Summerside and Tyne Valley areas were blown over. Some 1,700 subscriber services throughout the Province were disrupted. One hundred and eighty-seven long distance circuits were knocked out. The major effort involved in the concentrated drive to restore service involved virtually every employee. By October 25, most disruptions were remedied and by month-end all were back to normal.

Total estimated cost of damage was \$150,000 and all those employees who worked so well in the restoration provided ample evidence that the traditional "Spirit of Service" is as much alive today as it was in by-gone days when the industry was in its infancy.

Directors

In the year 1974, two directors retired from the Company's Board of Directors. The Honorable F. W. Hyndman retired as an officer and a director in May after more than 10 years service on the Board. Also, Mr. F. M. Waller resigned as an officer and director in October 1974 to take up a two year assignment as Communications Consultant to the Council of Maritime Premiers. To both these men who served the Company well, we offer our thanks and best wishes in the future. To replace the retiring directors, Mr. J. J. Howatt and Mr. I. E. H. Duvar were elected to the Board of Directors.





"Park and phone
behind mobile
year. Busy cus
and long dista
utilizing this po

Modern and convenient, the Company's new Phone Store in the Head Office provides an attractive decor for customer transactions. Store has one of Canada's first "family conference" phone booths.



—without leaving your car—is the idea
change service introduced this past
ers have direct access to both local
networks through the Mobile Operator
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Summing up

The range of price increases for telecommunications services approved for implementation January 1, 1975 is relatively low in the context of other price changes in the nation's economy over the past five years.

From 1970, through to the end of 1974, the overall cost of living rose 29%, clothing went up 24%, housing costs rose 31% and food costs soared by nearly 49%. During the same period the price of telephone service increased by 10%.

Your Company is similar to any other consumer, however, in that it has been faced with repeated increases in its costs of labour, materials and capital monies. And, unlike most businesses, price increases to our customers can only be implemented following a hearing before, and with the approval of, the Public Utilities Commission of P.E.I.

The inflationary conditions which prevailed throughout 1974, and which led to the higher rates now in effect, still persist. Thus, it is a major Company priority to continue to meet the challenge of high inflation.

In this we must look more and more to the men and women of your Company as we face the coming year. They are a highly-skilled and dedicated team, and it is their knowledge and abilities which will ensure that we will strive to meet the challenge of the future with confidence and with success.

President
For the Board of Directors
April 11, 1975

THE FINANCIAL REPORT

In brief

	1974	1973
Construction program expenditures (thousands)	\$ 8,423	\$ 5,648
Telephone plant per telephone, December 31	\$ 765	\$ 656
Telephones in service, December 31	45,866	42,314
Earnings per common share	\$.82	\$ 1.34
Dividends per share	\$.65	\$.62
Average common shares	554,315	549,281
Return on average invested capital	7.8%	8.8%
Return on average common equity	7.2%	12.3%
Equity per common share, December 31	\$ 11.10	\$ 11.16
Long-term debt % total invested capital, December 31	53.0%	52.6%
Employees, December 31	297	258
Salaries and Wages	\$ 2,382	\$ 1,919

In statements

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INCOME STATEMENT

For the Year Ended December 31, 1974

(With Comparative Figures for 1973)

	1974	1973
	\$	\$
OPERATING REVENUES		
Local service	3,846,900	3,371,800
Long distance service	3,659,000	3,061,900
Other	178,300	131,700
Uncollectible	36,600	17,500
	<u>7,647,600</u>	<u>6,547,900</u>
OPERATING EXPENSES		
Maintenance	1,406,300	1,081,000
Depreciation (Note 1(a))	1,760,100	1,337,300
Traffic	1,010,900	893,800
Commercial & marketing	336,800	256,100
Administrative	339,600	265,500
Other	384,900	301,300
Taxes other than income taxes	146,500	118,300
	<u>5,385,100</u>	<u>4,253,300</u>
	2,262,500	2,294,600
	<u>86,600</u>	<u>70,200</u>
OTHER INCOME (Note 2)		
	<u>2,349,100</u>	<u>2,364,800</u>
INTEREST		
Bond interest	780,000	449,600
Other (Note 3)	147,000	165,000
	<u>927,000</u>	<u>614,600</u>
	1,422,100	1,750,200
	<u>683,500</u>	<u>829,100</u>
INCOME TAXES (Note 4)		
	<u>738,600</u>	<u>921,100</u>
NET INCOME FOR YEAR		
	<u>.82</u>	<u>1.34</u>
Earnings per common share		

D. S. Inkpen,
Comptroller

The Island Telephone Company Limited

FINANCIAL POSITION STATEMENT

As at December 31, 1974

(With Comparative Figures for 1973)

ASSETS

	1974	1973
	\$	\$
TELEPHONE PLANT (Note 1(a))		
Depreciable telephone plant		
in service	31,197,100	25,974,100
Other telephone plant (Note 5)	3,516,600	1,511,000
	<u>34,713,700</u>	<u>27,485,100</u>
Less accumulated depreciation	7,183,200	6,156,500
	<u>27,530,500</u>	<u>21,328,600</u>
Materials inventory	367,700	267,300
	<u>27,898,200</u>	<u>21,595,900</u>
INVESTMENTS (Note 6)	<u>72,100</u>	<u>72,100</u>
CURRENT ASSETS		
Cash	—	45,600
Accounts receivable	1,053,800	916,700
Income taxes receivable (Note 4)	216,700	—
Prepayments	74,900	43,700
	<u>1,345,400</u>	<u>1,006,000</u>
DEFERRED CHARGES		
Unamortized long-term debt expenses	138,200	132,900
Other deferred charges	75,600	60,800
	<u>213,800</u>	<u>193,700</u>
	<u>29,529,500</u>	<u>22,867,700</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

	1974	1973
	\$	\$
SHAREHOLDERS' EQUITY		
Common stock (Note 7)	2,810,500	2,768,000
Premium on common stock (Note 8)	1,000,700	997,500
Retained earnings	2,429,800	2,413,700
	<u>6,241,000</u>	<u>6,179,200</u>
Total common equity	6,241,000	6,179,200
Preference stock (Note 7)	5,050,000	3,050,000
	<u>11,291,000</u>	<u>9,229,200</u>
LONG-TERM DEBT (Note 9)		
First mortgage bonds	9,750,000	9,750,000
Bank and other notes	2,973,000	480,000
	<u>12,723,000</u>	<u>10,230,000</u>
CURRENT LIABILITIES		
Bank indebtedness	9,300	—
Due to Maritime Telegraph & Telephone Company, Limited	192,100	216,700
Accounts payable	2,054,600	557,300
Income taxes accrued	—	94,100
Interest accrued	69,300	69,300
Other current liabilities	213,300	65,300
	<u>2,538,600</u>	<u>1,002,700</u>
DEFERRED CREDITS		
Income taxes (Notes 1(b) and 4)	2,971,400	2,401,800
Other deferred credits (Note 10)	5,500	4,000
	<u>2,976,900</u>	<u>2,405,800</u>
COMMITMENTS (Note 12)		
	<u>29,529,500</u>	<u>22,867,700</u>

On behalf of the Board:

W. C. Auld
Director

A. G. Archibald
Director

The accompanying notes form an integral part of these financial statements

RETAINED EARNINGS STATEMENT

For the Year Ended December 31, 1974

(With Comparative Figures for 1973)

	1974	1973
	\$	\$
RETAINED EARNINGS,		
beginning of year	2,413,700	2,018,900
ADD:		
Net income for year	738,600	921,100
DEDUCT:		
Preference dividends	286,000	187,000
Common dividends	360,300	338,800
Commission and expenses of issuing preference stock	75,900	—
Other	300	500
	722,500	526,300
RETAINED EARNINGS,		
end of year	2,429,800	2,413,700

AUDITORS' REPORT

To the Shareholders of
The Island Telephone Company Limited:

We have examined the financial position statement of The Island Telephone Company Limited as at December 31, 1974, and the income, retained earnings and changes in financial position statements for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1974, and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Halifax, Canada,
January 30, 1975

Chartered Accountants

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended December 31, 1974

(With Comparative Figures for 1973)

	1974	1973
	\$	\$
SOURCE OF FUNDS:		
Internal —		
Operating revenues and other income	7,734,200	6,618,100
Less charges requiring working capital (Note 11)	4,790,000	3,989,800
From operations	2,944,200	2,628,300
Deferred income taxes, prior years (Note 4)	—	150,300
Total internal	2,944,200	2,778,600
External —		
First mortgage bonds	—	4,000,000
9 1/4% preference stock	2,000,000	—
Bank and other notes	2,973,000	480,000
Employees' stock savings plan (Note 10)	45,500	39,200
Decrease in materials inventory	—	20,300
Decrease in working capital	1,196,500	5,500
Total external	6,215,000	4,545,000
Total source of funds	9,159,200	7,323,600
APPLICATION OF FUNDS:		
Redemption of first mortgage bonds	—	700,000
Repayment of bank and other notes	480,000	675,000
Dividends	646,300	525,800
Other	94,600	128,400
Increase in materials inventory	100,400	—
Total application of funds (other than construction)	1,321,300	2,029,200
Total funds provided for construction	7,837,900	5,294,400
FUNDS USED FOR CONSTRUCTION:		
New telephone plant added	8,333,800	5,569,100
Cost of removing old plant	89,300	78,800
Construction program expenditures	8,423,100	5,647,900
Less charges not requiring working capital		
— Interest, pensions and expenses credited to income	161,100	119,200
— Salvage	404,200	218,800
— Other	19,900	15,500
	585,200	353,500
Total funds used for construction	7,837,900	5,294,400

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies:

- (a) Telephone plant, at cost:
Depreciation:

Depreciation is charged on a straight-line basis using component rates for classes of plant, determined by a continuing program of engineering studies, as approved by the Public Utilities Commission of the Province of Prince Edward Island. These rates provide for depreciating the assets over their estimated useful service lives and resulted in a composite rate for 1974 of 6.3% (1973, 5.7%).

Materials inventory:

Materials inventory consists of items which will be used in the construction program.

- (b) Income taxes:

Deferred tax accounting has been followed with respect to all timing differences.

- (2) **Other income** — includes interest charged construction of \$89,700 (1973, \$72,100) less other income charges.

- (3) **Other interest** — includes interest on bank and other notes of \$135,200 (1973, \$158,100) and amortization of long-term debt expenses amounting to \$8,600 (1973, \$4,900).

- (4) **Income taxes** — during 1973 the Company made a change in the method of calculating taxable income. This change enabled the Company to recover a portion of income taxes paid in prior years.

The current year's income taxes receivable represents a recovery of installments paid for 1974, primarily caused by a large construction program which resulted in a greater tax deferral than was anticipated.

- (5) **Other telephone plant** — land and telephone plant under construction.

- (6) **Investments** — principally in Telesat Canada. Total investments in these shares is \$60,000.

(7) Capital stock:

	1974	1973
Authorized	<u>\$10,000,000</u>	<u>\$10,000,000</u>
	Shares	Shares
Issued:		
Common — par value \$5.00		
Beginning of year	553,608	546,464
Issued during year for cash		
(1974 — \$45,559;		
1973 — \$56,500)	8,484	7,144
End of year	<u>562,092</u>	<u>553,608</u>
Preference — cumulative redeemable		
4 ¹ / ₂ % — par value \$10.00	40,000	40,000
4 ³ / ₄ % — par value \$10.00	40,000	40,000
5 ¹ / ₂ % — par value \$20.00	37,500	37,500
7 ¹ / ₄ % — par value \$20.00	75,000	75,000
9 ¹ / ₄ % — par value \$20.00*	100,000	—
	<u>292,500</u>	<u>192,500</u>
Value, at par, of issued common and preference shares	<u>\$ 7,860,500</u>	<u>\$ 5,818,000</u>

*During the year, 100,000 shares were issued at par for cash. These shares are non-voting unless eight quarterly dividends are in arrears.

(8) Premium on common stock —

	1974	1973
Beginning of year	\$ 997,500	\$ 976,700
On shares issued during year	3,200	20,800
End of year	<u>\$1,000,700</u>	<u>\$ 997,500</u>

(9) Long-term debt —

(a) First mortgage bonds:

Series	Rate	Maturing	Principal
D	5½%	May 1, 1978	\$ 500,000
E	5½%	October 2, 1981	500,000
F	5½%	June 15, 1983	750,000
G	7⅜%	February 1, 1988	1,000,000
H	8%	December 15, 1991	3,000,000
I	9¼%	December 15, 1993	4,000,000
			<u>\$9,750,000</u>

(b) Bank and other notes:

Bank demand loans at prime rate	<u>\$2,973,000</u>
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In order to permit the Company to time its new issues of debt or capital stock most advantageously the Company maintains a substantial bank line of credit and from time to time sells short-term promissory notes. Such short-term credit is replaced in the normal course by longer term financing and currently maturing debt issues are likewise normally refinanced. For this reason the Company does not classify these items as current liabilities.

Likewise, the Company does not classify as current assets excess funds received through financing and temporarily invested in short-term investments.

(10) Other deferred credits — include employees' stock savings plan as follows:

	1974	1973
Beginning of year	\$ 300	\$17,600
Add contributions, including interest	<u>45,500</u>	<u>39,200</u>
	45,800	56,800
Less common stock issued to employees under the plan	<u>45,800</u>	<u>56,500</u>
End of year	<u>\$ 200</u>	<u>\$ 300</u>

Generally, shares are issued in December of each year after the completion of twelve months of contributions. The purchase price is equivalent to 80% of the average market price of the stock. Prior to 1974 shares were issued on June 30 of each year after the completion of twelve months of contributions. However, in July 1973, the plan was changed to a calendar-year basis and additional shares were issued in December, 1973.

(11) Charges requiring working capital —

	1974	1973
Operating expenses, interest and taxes	<u>\$6,995,600</u>	<u>\$5,697,000</u>
Less charges not requiring working capital — Depreciation	1,760,100	1,337,300
— Deferred income taxes	569,600	460,300
— Other	<u>37,000</u>	<u>28,800</u>
	2,366,700	1,826,400
	<u>4,628,900</u>	<u>3,870,600</u>
Add credits not producing working capital — Interest, pensions and expenses charged to construction	161,100	119,200
	<u>\$4,790,000</u>	<u>\$3,989,800</u>

(12) Commitments — Pension Fund Obligations: As a result of an actuarial study carried out during 1974, it was decided that all unfunded obligations would be paid and accounted for over the estimated future working lifetime of employees of the Company. This is a departure from the previous practice of amortizing the unfunded obligation over a specific period of time. This change has not had a material effect on income for 1974 and is not expected to have a material effect on income in future years.

(13) Comparative figures — Certain of the 1973 figures have been restated so as to conform the presentation with that followed in 1974.

(14) Subsequent events — On December 2, 1974 the Company entered into an agreement with Merrill Lynch Royal Securities, Limited, as Agents, pursuant to which the Company has agreed to sell through Merrill Lynch Royal Securities, Limited, by private placement, \$3,500,000 11% First Mortgage Bonds, Series "J", at a price of \$100.00 per \$100.00 principal amount. The issue, to be dated and delivered on January 15, 1975, is payable in cash to the Company.

THE YEARS IN REVIEW

Financial Position at Dec. 31 (in thousands)

	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
Telephone plant	\$ 35,081	\$ 27,753	\$ 23,026	\$ 19,947	\$ 18,163	\$ 16,888	\$ 15,634	\$ 14,612	\$ 13,155	\$ 11,628
Accumulated depreciation	7,183	6,157	5,458	5,063	4,606	4,198	3,817	3,517	3,089	2,891
Investments	72	72	72	1,562	106	83	31	12	212	12
Current Assets	1,346	1,006	755	614	553	514	619	370	399	269
Deferred charges	214	194	67	105	37	38	41	78	57	51
Shareholders' equity	11,291	9,229	8,778	6,942	6,571	6,481	6,347	6,266	6,153	4,126
Long term debt	12,723	10,230	7,125	8,000	5,906	5,210	4,620	3,931	3,250	3,745
Current Liabilities	2,539	1,003	746	647	422	390	447	336	423	390
Deferred credits	2,977	2,406	1,813	1,576	1,354	1,244	1,094	1,022	908	808

Income (in thousands)

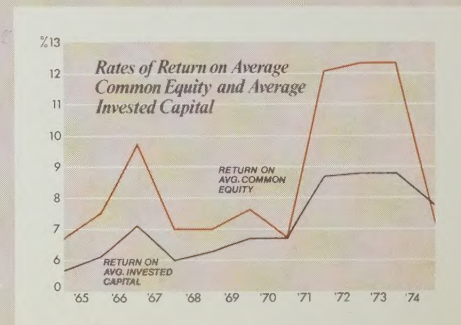
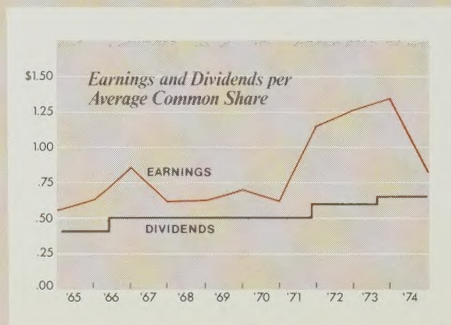
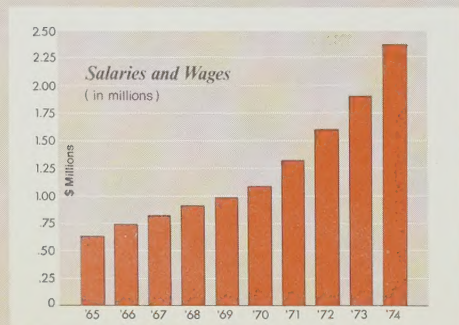
Operating revenues	\$ 7,648	\$ 6,548	\$ 5,440	\$ 4,784	\$ 3,903	\$ 3,589	\$ 3,274	\$ 2,967	\$ 2,770	\$ 2,331
Operating expenses	5,385	4,253	3,494	3,013	2,690	2,385	2,204	2,004	1,791	1,618
Other income	87	70	24	15	9	10	11	7	3	2
Interest	927	615	495	432	401	313	259	175	196	170
Income taxes	684	829	672	654	409	451	410	389	382	264
Net income for year	739	921	803	700	412	450	412	406	404	281

Statistics — at December 31

Telephone plant per telephone	\$ 765	\$ 656	\$ 593	\$ 559	\$ 534	\$ 523	\$ 510	\$ 496	\$ 472	\$ 440
Equity per common share	\$ 11.10	\$ 11.16	\$ 10.48	\$ 9.95	\$ 9.35	\$ 9.27	\$ 9.09	\$ 9.02	\$ 8.92	\$ 8.58
Embedded debt cost	8.1%	8.1%	6.8%	7.4%	7.1%	5.9%	5.9%	5.1%	5.1%	5.1%
Long term debt % total invested capital	53.0%	52.6%	44.8%	53.5%	47.3%	44.6%	42.1%	38.2%	34.6%	47.6%
Employees	297	258	259	225	221	198	197	206	198	193
Telephones in service	45,866	42,314	38,841	35,715	33,999	32,314	30,683	29,465	27,900	26,412
Dial telephones	87.4%	83.5%	78.7%	76.7%	73.9%	74.1%	72.1%	67.0%	67.1%	67.5%
Shareholders	2,615	2,192	2,160	1,791	1,788	1,812	1,838	1,849	1,797	1,435

Statistics — for year

Earnings per common share	\$.82	\$ 1.34	\$ 1.26	\$ 1.15	\$.63	\$.70	\$.64	\$.63	\$.86	\$.63
Average common shares	554,315	549,281	544,636	540,084	535,216	530,432	525,706	520,080	398,466	385,156
Dividends per common share	\$.65	\$.62	\$.60	\$.51	\$.50	\$.50	\$.50	\$.50	\$.46	\$.40
Times bond interest earned-before taxes	3.0	5.3	4.15	4.95	3.66	5.54	5.04	6.00	6.07	4.42
Times bond interest earned-after taxes	2.1	3.4	2.74	3.14	2.43	3.48	3.13	3.59	3.71	2.79
Return on average invested capital	7.8%	8.8%	8.8%	8.7%	6.7%	6.7%	6.3%	6.0%	7.1%	6.1%
Return on rate base	6.9%	7.8%	7.9%	7.9%	6.1%	6.1%	5.8%	5.4%	6.3%	5.4%
Return on average common equity	7.2%	12.3%	12.3%	12.0%	6.7%	7.6%	7.0%	7.0%	9.7%	7.5%
Construction prog. expenditures (in thousands)	\$ 8,423	\$ 5,648	\$ 3,702	\$ 2,429	\$ 1,951	\$ 1,835	\$ 1,715	\$ 1,835	\$ 2,037	\$ 1,444
Salaries and wages (in thousands)	\$ 2,382	\$ 1,919	\$ 1,606	\$ 1,324	\$ 1,096	\$ 995	\$ 911	\$ 825	\$ 737	\$ 638
Average daily calls (in thousands)	282	228	204	188	183	165	157	145	141	133
Average daily toll messages (in thousands)	9	9	8	7	6	6	5	5	5	4



THE ISLAND TELEPHONE COMPANY LIMITED



DIRECTORS

*A. GORDON ARCHIBALD

President
The Island Telephone Company Limited
Charlottetown, P.E.I.

*WALTER C. AULD

Vice President
The Island Telephone Company Limited
Charlottetown, P.E.I.

*IVAN E. H. DUVAR

Assistant to the President
The Island Telephone Company Limited
Charlottetown, P.E.I.
Elected October 1

CHARLES JAMES FRASER

President
Montague Drive-In Theatre Ltd.
Montague, P.E.I.

JOHN J. HOWATT

President
Darlington Farms Ltd.
Darlington, P.E.I.
Elected May 28

*THE HON. FREDERICK W. HYNDMAN

President
Hyndman & Company Limited
Charlottetown, P.E.I.
Retired May 28

WILLIAM HERBERT C. LEAVITT

President
The Leavitt's Maple Tree Craft
Alberton, P.E.I.

HORACE R. MACFARLANE

Manager & Secretary Treasurer
The Prince Edward Island Bag
Company, Limited
Summerside, P.E.I.

*DONALD W. MYERS

Director
The Island Telephone Company Limited
Charlottetown, P.E.I.

*PERCY J. SMITH

Vice President
Great Eastern Corporation Ltd.
Halifax, N.S.

*FREDERICK M. WALLER

Secretary and Executive Assistant
The Island Telephone Company Limited
Charlottetown, P.E.I.
Resigned September 30

OFFICERS

A. GORDON ARCHIBALD

President

IVAN E. H. DUVAR

Assistant to the President
Appointed May 28

WALTER C. AULD

Vice President

THE HON. FREDERICK W. HYNDMAN

Vice President
Retired May 28

EDWARD J. HICKS

Secretary-Treasurer
Appointed October 1

FREDERICK M. WALLER

Secretary & Executive Assistant
Resigned September 30

DAVID S. INKPEN

Comptroller

JAMES L. CAMERON

Assistant Secretary &
Staff Supervisor

OPERATIONS

D. R. LIVINGSTONE

General Manager

MRS. K. M. FRIZZELL

Operator Services Manager

A. E. HOLLAND

Supervisor — Test Centre
Trunks & Switching

RAYMOND LIVINGSTONE

Supervisor — Construction
Installation & Repair

D. W. McLANE

Commercial Supervisor

P. A. TRAINOR

Engineering Supervisor —
Outside Plant Design

*Member Executive
Committee

